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May 29, 2018

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-00074

BVR-18-01

RE: Notice of Filing of Utility Reports on Impact of Tax-Law Changes

Dear Diane,

We are corresponding on behalf of Capitol Water Corporation in response to Order 33965 with regard to the federal Tax Cuts and Jobs Act of 2017 and the decreased federal corporate rate structure. Capital Water Corporation is a small operation that has historically had between \$25,000 and \$80,000 of net income. Under the former tax structure for corporations, the first \$50,000 of net income were taxed at 15%, the next \$25,000 were taxed at 25%, and the next \$25,000 were at 34%. Using these graduated tax rates has, for Capitol Water, yielded a blended rate of somewhere between 15% and 19% in the past because most of their income was in the 15% tax bracket. Now, under the Tax Reform of 2017, we have a flat rate of 21% on all net income. As such, it will result in a larger tax burden for Capital Water going forward of between 3% and 6% of net income. As a result of this increase in the amount tax that will be due, it would not be appropriate to decrease the rates the customers are being charged, and likely should result in an increase in rates of around 1-2% to maintain the profitability for the corporation. Hopefully this analysis is helpful, but for corporations the size and having the profit levels of Capitol Water, the change in the tax law actually is an increase in tax liability. Thank you for your consideration of this information

Sincerely,

S Jason Coles, MBA, CPA/PFS

Enclosures